MISSISSIPPI STATE UNIVERSITY

OPERATING PROCEDURE

Service Centers

GENERAL PURPOSE

This document provides guidance and procedures covering the financial operation of service centers in order to ensure compliance with generally accepted accounting practices, applicable laws and regulations, and requirements of sponsored agreements.

DEFINITION

Service Centers are established primarily as a means to capture costs associated with providing goods and services. Some, if not all, of the costs of providing the goods or services are then recovered from customers via a calculated billing rate. The three types of service centers are:

1. Recharge Centers - A service center within a department that provides goods or services that do not represent the major purpose of the generating department. The goods or services are intended as a convenience to a limited group of internal users primarily within the department. A separate fund is not required to account for costs and revenues associated with a recharge center.

2. Service Facilities - A service center that provides goods and/or services primarily to internal users throughout the academic community. The goods and/or services provided are readily available from external sources, however, they are offered via a service facility predominantly as a convenience to users. A separate 24XXXX fund must be established to account for and document all costs and revenues associated with a Service Facility.

3. Specialized Service Facilities – A service center that offers highly complex and technical services that are not readily available from outside vendors. A separate 24XXXX fund must be established to account for and document all costs and revenues associated with a Specialized Service Facility.

RESPONSIBILITIES

- **Service Center Director** - Manage the daily operations of the service center. Provide competitive rates and services while maintaining break-even margins and necessary fund balances. Prepare an annual budget and financial statements for the center, plus other intermittent financial reports as requested. Perform an annual review and rate analysis in time for customers to include rate adjustments in their next year’s budgets. Maintain detailed records supporting charges to all users. Bill customers for goods and/or services in a timely manner. Maintain documentation of user rate calculations.
- **Department Executive Officer\Dean\Vice President** - Approve the establishment of new service center and the continued operation of existing ones. Approve the center’s annual budget. Fund any deficit or disallowance’s created by service centers under their direction.
- **Property Control** - Identify items of equipment that were purchased with federal funds.
- **Controller’s Office** - Review and approve the rate calculation for all new service centers to ensure accuracy and consistency with applicable policies and procedures. Monitor billing rates to determine if total billings for services are reasonable compared to the costs of operation. Review rates periodically to determine if all unallowable costs are being excluded. Notify the service center and appropriate administrators if the review identifies practices inconsistent with applicable policies and procedures.

**PROCEDURES**

**A. Service Center Establishment**

In order to operate a service center, there must be an existing demand for a particular service and there must be a significant anticipated volume of recharging, both in dollar amounts and in number of transactions. In addition, it should be anticipated that the service will be needed on a long-term, continual basis.

A [form for establishing a new service center](#) may be obtained from the Cost Accounting Department. To establish and substantiate a service center, the following information is required:

- Service Name - Brief title to give service name recognition.
- Description - Brief description of the service to be provided.
- Users - List expected users and their relative percentage to the total estimated usage.
- Estimated Operating Costs - Attach Budget.
- Unit of Measurement - Describe how service usage will be measured.
- Estimated Rate - See billing rate below.
- Primary and secondary contact person.
- Approval of appropriate Unit Head, Dean or Director, Vice President.

Once completed and properly approved, the form should be submitted to the Records & Reporting Manager at Mail Stop 9602. Records & Reporting will establish a fund and advise the primary contact person of the new fund number. A copy of the request should also be forwarded to the Cost Accounting Department, which will maintain a comprehensive listing of all service centers and rates on the MSU web site.
B. Billing Rates

Costs are recovered into a service center through revenue generated from the established billing rate. Only those costs charged to, or expected to be charged to, the 24XXXX fund can be included in the billing rate. Billing rates should be reviewed prior to April 1 of each fiscal year so that users can include any rate adjustments in their upcoming budgets. Revisions to an established rate should be submitted to the Cost Accounting Department by April 15 on a Request for Service Center Rate Revision form. If a service center provides multiple services, separate billing rates should be established for each significant service whose cost and revenues can be segregated.

For Internal Customers: A Federal agency or a customer paying with an MSU Fund number, such as a department or a Sponsored Project.

Note: All costs used in determining billing rates for internal users must be federally-allowable; consistently estimated, accumulated, and reported; and reasonably allocated according to CASB standards 501, 502, 505, and 506.

Recharge Centers:

Billing rates for internal users of Recharge Centers are based on direct costs only and are calculated using the following formula:

\[
\frac{\text{Projected Annual Direct Costs +/- prior year carry-forward}}{\text{Projected Billing Units expected to be provided during the year}}
\]

Service Facilities and Specialized Service Facilities:

Billing rates for internal users of Service Facilities and Specialized Service Facilities are calculated to recover total direct costs plus any internal service center overhead charged to the Service Facility fund.

\[
\frac{\text{Allowable Direct Costs + Internal Svc Ctr Overhead +/- prior year carry-forward}}{\text{Projected Billing Units expected to be provided during the year}}
\]

For External Customers: Private individuals or entities.

Billing rates for external users of service centers will be charged a rate designed to fully recover all costs, including institutional overhead (F&A) and costs deemed unallowable by CAS 505.

\[
\frac{\left[\text{Direct Costs + Internal Svc Ctr Overhead} \times (1 + \text{Full F&A rate})\right] +/- prior year carry-forward}{\text{Projected Billing Units expected to be provided during the year}}
\]

* The full rate applies, as opposed to the capped rate which restricts Administration to 26%. Contact Cost Accounting for more information.
C. Over/Under Recovery

A service center should not operate for extended periods of time with either a deficit or a surplus fund balance.

In the event of a deficit, it may be necessary to increase the user fee rate to recover the deficit within the next annual operating cycle. However, it may be necessary to cover the deficit from departmental discretionary funds. This would be the case if the operating deficit was so significant that it would not be reasonable to expect that rates could be adjusted within reasonable levels for recovery from users within the next annual operating cycle. That is, the rate would have to be set so high that potential users would not be willing to utilize the service.

In the event a surplus is generated, the user fee should be adjusted down as a method to return surplus to users. Surpluses from one service may be used to offset the deficit from another service only if the mix of users and level of services provided to each group of users is approximately the same. Surpluses should not be transferred out of service center accounts to subsidize other University operations. However, excess funds may be returned to a fund which has provided a subsidy, limited to the amount of clearly documented subsidy. Building a surplus in these funds could result in violations of the OMB A-21 Cost Principles. In addition, generating revenues in excess of cost could create unrelated business income tax issues with the Internal Revenue Service.

The University, or a school, or a department, may elect to subsidize a service center either by charging billing rates lower than actual cost or by not making adjustments to future billing rates at year end for deficit. However, the service center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. Since subsidies can result in a loss of funds to the University, they should be provided only when there is sound programmatic rationale and with the approval of the Department Head, Dean, or appropriate Vice President. Any subsidies will be identified as a separate item in the billing rate schedules provided to the Controller’s Office.

D. Cost and Revenue Segregation and Allocation

Costs and revenues should be segregated into cost centers for each service that is provided. Depending on the type of service center, there may be as many as three categories of cost that need to be allocated: (1) costs that are directly related to providing the product or service (i.e. staff salaries providing multiple services) (2) internal support costs (i.e. equipment maintenance costs) (3) institutional F&A costs (i.e. O&M, Building Use). In each instance, the costs should be allocated to the services on an equitable basis that reflects the relative benefit each service receives from the cost. The Controller Office’s Cost Accounting Department is responsible for calculating the institutional F&A rate and can provide that component to the service center billing rate calculation.
E. Equipment (revised 2/8/06)
   The total acquisition cost of non-capital equipment (<$5,000) is considered a current expenditure and should be included in the annual operating costs of a service center when calculating billing rates. The cost of capital equipment (>=$5,000), however, is recovered via the university's F&A rate rather than via service center billing rates.

F. Transfer of Institutional Indirect Costs Recovered via Service Center Billing Rates
   Typically, the F&A component of service center rates recovered from external users should be transferred, at least annually, from the service center fund to the fund that provided the indirect support. However, if agreeable to both parties, the F&A component can be retained by the Service Center to subsidize future billing rates. Generally, the overhead recovered through a service center should be allocated per the distribution of facilities and administrative cost policy.

G. Service Center Inventory
   If a service center sells products and has a significant amount of stock on hand, inventory records must be maintained. A physical inventory should be taken annually and reconciled to the inventory account. Inventory valuations may be based on any generally recognized inventory valuation method (i.e. FIFO, LIFO, average cost, etc.)

H. Record Retention
   Service Centers must keep records of rate calculations, billings, collections, units of service provided, costs and revenues, surpluses and deficits (including all worksheets and detailed backup) for a period of five (5) years from the end of the fiscal year in which information was used.

I. Technical Assistance
   The Controller’s Cost Accounting Department is available to provide assistance as necessary to facilitate development of a Service Center.

Contacts:

   Brandy Akers, Accountant 662-325-1929
   bakers@controller.msstate.edu

   Denise Peeples, Assistant Controller for Sponsored Programs 662-325-1937
   denisep@controller.msstate.edu
### Definitions:

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>Direct Costs</td>
<td>Costs specifically assignable to goods/services provided by a service center. These costs <strong>must be charged to the service center operating fund</strong> and will include, but are not limited to, salaries, wages, and fringe benefits of faculty and staff involved in providing the goods/services; consumable supplies and materials; telephone charges; non-capital (&lt;$5,000) equipment costs; travel expenses, etc.</td>
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<td>External User</td>
<td>Private individuals or entities.</td>
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<td>F&amp;A Rate</td>
<td>Institutional overhead rate negotiated with the federal government for reimbursement of facilities and administrative costs associated with sponsored programs. Administration is capped at 26%.</td>
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<td>Full F&amp;A Rate</td>
<td>Overhead rate applied to service center billing rates charged to external users to recover institutional facilities and administrative costs. Administration is not capped. Contact Cost Accounting for current rate.</td>
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<td>Internal User</td>
<td>University departments or entities, Federal agencies.</td>
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<td>Operating Costs</td>
<td>The total direct costs and internal service center overhead charged to the service center fund.</td>
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<td>Prior year carry-forward</td>
<td>Gain/loss brought forward from the prior fiscal year. Carry-forwards are allowable cost adjustments to subsequent billing rate computations. Prior year gains should be subtracted from current year costs to determine billing rates; prior year losses should be added.</td>
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<td>Projected Billing Units</td>
<td>The number of units of output the service center expects to provide throughout the year.</td>
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